



Negative COLA Initial Consideration

LEOFF Plan 2 Retirement Board

June 16, 2010

Overview

- Issue
- Current Practice
- Examples of Negative COLA

Issue

- Negative inflation or deflation could cause retiree's pension benefits to decline.

Current Practice

- Retirees entitled to a COLA on July 1 each year provided they have been retired one year
- COLA based on change, up or down in CPI-W for Seattle/Tacoma/Bremerton
- Benefit cannot fall below original calculated amount

Negative Inflation of 0.5% for 2010

- Member retired 7/1/2009 with a \$5000 monthly benefit.

| Calendar Year | Monthly Benefit | Change in CPI-W | COLA (%) | COLA (\$) | Benefit after COLA |
|---------------|-----------------|-----------------|----------|-----------|--------------------|
| 2009 | \$5000.00 | 0.44% | 0.44% | \$22.00 | \$5022.00 |
| 2010 | \$5022.00 | (0.50%) | (0.50%) | (\$25.11) | \$5000.00* |

- *Benefit can not fall below original benefit

Negative Inflation of 0.5% for 2010

- Member retired 1/1/2008 with a \$5000 monthly benefit.

| Calendar Year | Monthly Benefit | Change in CPI-W | COLA (%) | COLA (\$) | Benefit after COLA |
|---------------|-----------------|-----------------|----------|-----------|--------------------|
| 2008 | \$5000.00 | 4.48% | 3.00% | \$150.00 | \$5150.00 |
| 2009 | \$5150.00 | 0.44% | 1.89%* | \$97.34 | \$5247.34 |
| 2010 | \$5022.00 | (0.50%) | (0.50%) | (\$26.24) | \$5221.10 |

- *COLA is greater than change due to “banking”

Historical Inflation Data

| YEAR | CPI-W, Seattle, Tacoma, Bremerton |
|------|--------------------------------------|
| 2009 | 0.44% |
| 2008 | 4.48% |
| 2007 | 3.79% |
| 2006 | 3.73% |
| 2005 | 3.02% |
| 2004 | 1.57% |
| 2003 | 1.41% |
| 2002 | 1.81% |

Summary

- The potential exists for a retired member's monthly pension to be reduced if there is deflation
- Benefit can not fall below original calculated amount

Negative COLA

QUESTIONS?